

STATEMENT OF PURPOSE

RS18551

This legislation amends two sections of the Idaho Uniform Principal and Income Act. The first amendment amends Idaho Code Section 68-10-409 that relates to the distributions from deferred compensation, annuity and similar plans. When an IRA or other retirement arrangement (a "plan") is payable to a marital deduction trust, the IRS treats the plan as a separate property interest that itself must qualify for the marital deduction. IRS Revenue Ruling 2006-26 said that, as written, this section of the Uniform Principal and Income Act does not cause a trust to qualify for the IRS's safe harbors. Revenue Ruling 2006-26 was limited in scope to certain situations involving IRAs and defined contribution retirement plans. Without necessarily agreeing with the IRS' position in that ruling, the revision to this section is designed to satisfy the IRS' safe harbor and to address concerns that might be raised for similar assets. The second amendment amends Idaho Code Section 68-10-505 that relates to the distribution of income derived from a pass-through entity. When a trust owns an interest in a pass-through entity, such as a partnership or S corporation, it must report its share of the entity's taxable income regardless of how much the entity distributes to the trust. Whether the entity distributes more or less than the trust's tax on its share of the entity's taxable income, the trust must pay the taxes and allocate them between income and principal. The amendments clarify the required distributions.

FISCAL NOTE

Not fiscal impact on the general fund.

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